2 Unloved Canadian Energy Stocks for a Contrarian Portfolio

Description

Contrarian investors are always looking for troubled stocks that could deliver big returns when market sentiment improves.

Let's take a look at two companies in the Canadian oil patch that might be interesting picks right now.

Cenovus Energy (TSX:CVE)(NYSE:CVE)

Cenovus shareholders are wondering why the stock continues to lag its oil sands peers, despite the improvement in oil prices over the past year.

The challenges lie in the company's decision to buy out its partner, **ConocoPhillips**, in the spring of 2017. The $17.7 billion deal was a huge gamble in the face of falling oil prices and an uncertain future for the Canadian sector given the ongoing lack of infrastructure to move oil to international markets.

Cenovus didn't have the cash to close the deal, so it took a $3.6 billion bridge loan with the idea of selling non-core assets through the end of 2017. Cenovus also hedged the majority of its oil production through the first half of 2018. The market didn't like what it saw and the stock dropped from about $20 per share in early 2017 to below $10 last summer.

The recovery in oil prices over the past year has turned out to be a double-edged sword. On the positive side, Cenovus found buyers willing to pay enough for the non-core assets to cover the bridge loan. However, the surge in the price of oil through the first half of 2018 meant Cenovus missed out on some huge potential margins as 80% of production had been hedged at much lower prices. Cenovus booked realized risk management losses of $469 million in Q1 and $697 million in Q2 2018.

Fortunately, the worst days should be behind Cenovus, as the Q2 report indicated the hedging positions represent 37% of production through the end of the year.

Pipeline bottlenecks should eventually be solved and Cenovus is sitting on a resource base that can deliver decades of production growth. If you like the long-term oil story, Cenovus looks attractive today. At the time of writing, the stock trades for $12.50 per share.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

Crescent Point was once a dividend darling in the Canadian energy sector, but the prolonged downturn forced the company to cut the monthly distribution from $0.23 per share to the current payout of $0.05. For new investors who believe the company has a positive future, the payout provides a 4.25% yield at the current stock price.

Crescent Point is working through a transition after the exit of the founding CEO and other long-term senior managers. The market remains in wait-and-see mode as the new executive team unloads non-core assets and looks to reduce operating costs. At the time of writing, Crescent Point trades at $8.50 per share. In the summer of 2014, the stock was above $47.

Crescent Point owns attractive light-oil resources and I wouldn’t be surprised to see it bought, which would be an interesting situation for a company with one of the most aggressive acquirers in the Canadian energy patch.

Assuming the new management team keeps the dividend in place, the stock provides a nice yield while you wait for better days.

The bottom line

Cenovus and Crescent Point continue to trade at depressed levels, but better days should be on the horizon. If you have a contrarian investing style and are bullish on the energy sector, these stocks might be interesting picks today.

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